

TOWN OF SMYRNA
AGREED-UPON PROCEDURES ON MUNICIPAL GRANTS
FOR THE YEAR ENDED JUNE 30, 2006

**TOWN OF SMYRNA
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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Town of Smyrna
27 South Market Street
Smyrna, Delaware

We have performed the procedures enumerated below, which were agreed to by Town of Smyrna and the State of Delaware's Office of the Auditor of Accounts, Department of Homeland Security, and the Office of the State Treasurer, solely to assist you with respect to determining the Town's compliance with Delaware's applicable laws, regulations, financial reporting and the effectiveness of the internal control structure related to the municipal grant funds received for the year ended June 30, 2006 on Page 5. The Town of Smyrna's Management is responsible for compliance with those requirements. This agreed-upon procedures engagement was performed in accordance with *Government Auditing Standards* (2003) issued by the Comptroller General of the United States and the attestation standards established by the American Institute of Certified Public Accountants that have been incorporated by *Government Auditing Standards* (2003). The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are as follows:

1. Document understanding of cash disbursement internal control structure over municipal street aid grant funds from discussion with management and report internal control weaknesses.

During completion of the program checklist, no internal control weaknesses were determined in the internal controls of the Town.

2. Complete the State of Delaware Auditor of Accounts municipal grants agreed-upon procedure program to determine the Town's compliance with applicable laws, regulations and financial reports related to municipal grant funds received during the year ended June 30, 2006. Detail any instances of noncompliance.

FINDING NO. 06-1 - During completion of the Town of Smyrna's program checklist for the municipal street aid (MSA) grant, it was noted that grant monies were deposited into the general fund account and were not transferred into the MSA account. The Town is required to keep all funds received from the MSA grant in a separate account as required by 30 Del. C. §5165(a). The Town may reimburse the general fund account for eligible expenditures from the MSA account after the payment is executed from the general fund. Noncompliance with the grant's requirements could adversely affect future awards to the Town.

RECOMMENDATION - The Town should transfer \$ 148,793.70 to the municipal street aid bank account and in the future should maintain all municipal street aid funds in a separate account as required by State regulations.

TOWN'S PLAN FOR CORRECTIVE ACTION:

"The Town of Smyrna deposits the Municipal Street Aid funds into their General Fund checking account and transfers the funds until needed with PNC Advisors. It is necessary for us to use the General Fund checking account to transfer funds in and out of the investment account.

If the Town were required to open up a new checking account, the checks would need to be hand written and deposits made outside of our normal course of business. The Town feels the above action would increase our internal control risks rather decrease. However, if the Town is required to maintain a separate Municipal Street Aid checking account, the Town will open the account.

The Town did not transfer all funds received for Municipal Street Aid to the investment account while the Town awaited the Suburban Street funds earmarked to Citizen's Hose by the Honorable Representative Ennis. The Town generally does not have \$ 41,000 laying around that it can give Citizen's Hose for Suburban Street funds. It took the State about a year to reimburse the Town. Generally, the Town has adopted the State's policy to transfer funds to the Investment Account upon receipt and reimburse the General Fund after disbursement of Municipal Street Aid expenditures. The Town's corrective action would be for the State to simply give the money to Citizen's Hose rather than give the illusion that it is going for a Street Project that the Town already completed."

FINDING NO. 06-2 - During completion of the Town of Smyrna's program checklist for the MSA grant, it was noted that bids were obtained for a street improvement project. The Town's advertisements for bid proposals did not meet the timing requirements of 29 Del. C. §6923(b), which states that bids shall be published at least once a week for two consecutive weeks. Failure to comply with applicable laws and regulations could result in the loss of grant funding.

RECOMMENDATION - The Town should implement controls to ensure compliance with the applicable laws and regulations regarding procurement with State of Delaware funds.

TOWN'S PLAN FOR CORRECTIVE ACTION:

"The Town will comply with the Delaware Code as recommended by the Auditor. The Town did request bids on 2 separate occasions but was not aware of the length of time necessary between the requests for bids."

FINDING NO. 06-3 - During completion of the Town of Smyrna's program checklist for the MSA grant, it was noted that the Town identified in their general ledger and on the annual report an MSA expenditure of \$ 4,975.80 for an irrigation system installation and a flag pole installation, which are not allowable costs in accordance with 30 Del. C. §5165(a) and "Guidelines for Municipal Street Aid Funding".

RECOMMENDATION - The Town should establish procedures that ensure MSA expenditures are allowable costs under State regulations. The funds were paid from the general fund bank account and not reimbursed from the separate MSA cash account; therefore, no reimbursement to the MSA account is required.

TOWN'S PLAN FOR CORRECTIVE ACTION:

"During a January 2006 Town Council meeting, Smyrna Town Council approved the use of \$ 20,000 of Municipal Street Aid monies for Street/Sidewalk improvements at Citizen's Hose in Smyrna DE. The project would normally qualify as expenditures for Sidewalk Improvements. If the State feels that the expenditures are not qualifying expenditures, the Town will make the necessary journal entries and reimburse the Municipal Street Aid Fund from the General Fund."

TOWN'S PLAN FOR CORRECTIVE ACTION - CONTINUED:

"Those expenditures are being tracked in the Municipal Street Aid Fund using projects and are easily identifiable. The qualifying expenditures are made to separate general ledger account lines and are easily identifiable."

A copy of the Office of Auditor of Accounts "Guidelines for Municipal Street Aid Funding" will be distributed to our Finance Committee on January 9, 2007 and Town Council on January 16, 2007."

After reading the Auditor's Guidelines, it should be noted that the Town would be allowed to charge Municipal Street Aid Funds for (water/sewer systems, urban renewal, salaries & wages, sidewalks, equipment, law enforcement essentials and lighting) but has not chosen to pursue that actions since the available funding would not cover the necessary Major Street Projects."

FINDING NO. 06-4 - During completion of the Town of Smyrna's program checklist for the municipal street aid grant, it was noted that their financial report was submitted timely to the Office of the State Treasurer, but the financial report was not accurately prepared or reviewed [30 Del. C. §5165(b)(2)]. The ending balance, revenues and expenditures on the report did not agree to activity and balances in the MSA cash account. The State Grant agreed to the amount deposited in the general fund account, but not transferred to the MSA account, as reported in Finding No. 06-1. Expenditures reflected \$ 6,624.80 of street improvements not paid or reimbursed from the MSA account, including \$ 4,975.80 of ineligible costs reported in Finding No. 06-3. Failure to prepare accurate financial reports could result in the loss of grant funding.

RECOMMENDATION - The Town should amend the annual report and in the future should more carefully prepare and review the annual report to ensure an accurate presentation.

TOWN'S PLAN FOR CORRECTIVE ACTION:

"The reconciliation will have to be amended if it is decided that the payments on behalf of Citizen's Hose for Street/Sidewalk repairs is not eligible for Municipal Street Funding. The Town believes that the revenues received (two checks and change in fund balance in PNC Advisors) are accurate as reported."

FINDING NO. 06-5 - During completion of the Town of Smyrna's program checklist for the municipal street aid grant, it was noted that excess funds maintained by the Town were not all invested in securities guaranteed by the United States as required by 30 Del. C. §5165(c).

RECOMMENDATION - The Town should only invest in those securities that are United States government guaranteed.

TOWN'S PLAN FOR CORRECTIVE ACTION:

"The Town was not aware that excess funds needed to be invested in securities guaranteed by the United States. The Town has adopted investments policies that are modeled after the State Treasurer's Office. MK Consulting helped develop the Town's investments and the Municipal Street Aid funds are invested through PNC Advisors. The Town believes it would be unwise for the Town to change their investment strategy and invest in secured accounts that will earn very little interest. The Town has realized a much greater return on investment since using PNC Advisors than if the Town had money in secured accounts."

If the State wants the Town to go with the lower rate of return of secured investments, the Town will pursue either a checking/money market account or other account that meets the definition as prescribed in Delaware Code."

FINDING NO. 06-6 - During completion of the Town of Smyrna's program checklist for the Police Pension grant, it was noted that the Town did not submit to the State Board of Pension Trustees by April 1, a listing of retired police officers receiving benefits from the Town as of December 31 of the preceding year, excluding those receiving benefits from the State of Delaware County and Municipal Police Pension Plan as required by the Delaware Code [18 Del. C. §709(b)]. The State Board of Pension Trustees has not requested this information from the Town or provided a format for the Town to submit this information to them. Failure to comply could result in the loss of grant funding.

RECOMMENDATION - The City should provide mandated information regarding retired police officers receiving benefits to the State Board of Pension Trustees by April 1 of each year.

TOWN'S PLAN FOR CORRECTIVE ACTION:

"The State Board of Pension Trustees did not request the information noted in the finding on the current year police pension grant application. The Town was unaware of the requirement to submit this information to the State Board of Pension Trustees. The Town will provide information requested by the State of Delaware."

3. Note all situations or transactions that could be indicative of fraud, illegal acts, material errors, defalcations, irregularities or gross violations of the grant agreements and abuse or misuse of State funds.

During completion of the program checklist, no fraud, illegal acts and violations of provisions of contracts or grant agreements and abuse or misuse of state funds were noted.

4. Prepare the Town's Schedule of Municipal Grants received during the year ended June 30, 2006.

See Page 5.

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on the Town's compliance with Delaware's laws and regulations, financial reporting and the effectiveness of the internal control structure related to municipal grant funds. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information of the Town of Smyrna's Management and Council Members, Department of Homeland Security, Office of the State Treasurer and Office of Auditor of Accounts, and is not intended to be and should not be used by anyone other than those specified parties. However, under 29 Del. C. §10002(d), this report is a public record and its distribution is not limited.

Jefferson, Ulan, Doane & Starnes, P.A.

Georgetown, Delaware
December 14, 2006

**TOWN OF SMYRNA
SCHEDULE OF MUNICIPAL GRANTS
FOR THE YEAR ENDED JUNE 30, 2006**

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<u>Grants</u>	<u>Award Amount</u>
Municipal Street Aid	\$ 148,793.70
Police Pension	96,436.59
State Aid to Local Law Enforcement	13,291.39
Emergency Illegal Drug Enforcement	8,344.37

See independent accountant's report on applying agreed-upon procedures.